

NORTH SANPETE SCHOOL DISTRICT

Financial Statements

Year Ended June 30, 2005

NORTH SANPETE SCHOOL DISTRICT
Table of Contents
Year Ended June 30, 2005

	Page
FINANCIAL SECTION	
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	8
Statement of Net Assets	9
Statement of Activities	
Fund Financial Statements:	10
Balance Sheet – Governmental Funds	
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	11
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	14
Statement of Fiduciary Net Assets – Agency Fund	15
Notes to the Financial Statements	16
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds	27
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	28
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – School Lunch – Nonmajor Special Revenue Fund	29

NORTH SANPETE SCHOOL DISTRICT

Table of Contents
Year Ended June 30, 2004

	Page
<hr/>	
FINANCIAL SECTION (Continued)	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Non K-12 Programs – Nonmajor Special Revenue Fund	30
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Major Debt Service Fund	31
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Major Capital Projects Fund	32
Statement of Changes in Assets and Liabilities – Student Activities Agency Fund	33

GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

RANDEL A HEATON, C.P.A.
LYNN A. GILBERT, C.P.A.
JAMES A. GILBERT, C.P.A.
BEN H PROBST, C.P.A.

SIDNEY S. GILBERT, C.P.A.
JAMES E. STEWART, C.P.A.

190 WEST 800 NORTH
SUITE 100
PROVO, UTAH 84601
TELEPHONE (801) 377-5300
FAX (801) 373-5622

INDEPENDENT AUDITOR'S REPORT

Board of Education
North Sanpete School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Sanpete School District (District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

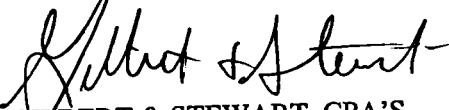
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of North Sanpete School District as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis which follows this report is not a required part of the basic financial statements but is supplementary information required by the Governmental

Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.



GILBERT & STEWART, CPA'S

November 8, 2005

Management's Discussion and Analysis

This section of North Sanpete School District's (District) financial report presents management's discussion and analysis of the District's financial performance during the year ending June 30, 2005

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the assets and liabilities of the District, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the District changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 8 through 13 of this report.

Fund financial statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories, governmental funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the *general fund*, *capital projects fund*, and *debt service fund*, all of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund statements can be found on pages 8 to 14 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are *not* reflected in the government-wide financial statement because the District cannot use these funds to finance its operations.

The District uses a fiduciary fund to account for resources held for other groups. The basic fiduciary fund financial statement can be found on page 15 of this report.

Notes to the financial statements. The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 16 to 27 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 44 to 53 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$16,839,618 at June 30, 2005.

NORTH SANPETE SCHOOL DISTRICT'S Net Assets

	Governmental Activities	
	2005	2004
Current and other assets	\$ 10,090,349	\$ 10,063,706
Capital assets	15,614,460	16,087,361
Total assets	<u>\$ 25,704,809</u>	<u>\$ 26,151,067</u>
Current and other liabilities	\$ 5,330,715	\$ 4,697,452
Noncurrent liabilities	3,834,476	4,093,400
	<u>8,865,191</u>	<u>8,790,852</u>
Net Assets:		
Invested in capital assets		
net of related debt	11,653,060	11,769,693
Restricted	3,762,656	4,069,307
Unrestricted	1,423,902	1,521,214
	<u>\$ 16,839,618</u>	<u>\$ 17,360,214</u>

The largest portion of the District's net assets (69%) reflects its investment in capital assets less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide services to students and consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to

repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the District's net assets represent resources that are subject to external restrictions on how they may be used. The remainder of net assets may be used to meet the District's ongoing obligations to students, employees, and creditors. However, the unrestricted net asset amount has been earmarked for the following purposes:

- **Designation for Undistributed Reserve**

As allowed by law, the District has established an *undistributed reserve* of \$200,000 of general fund budgeted revenues within the general fund which is set aside for contingencies or possible reductions in state funding and not to be used in negotiation or settlement of contract salaries and \$300,000 is set aside for employee benefit obligations. The maintenance of a sufficient reserve is a key credit consideration in the District's bond rating of Aaa (Underlying Rating: Baa1) given by Moody's Investor Service.

- **Post Employment Healthcare Benefit Obligation**

The District provides healthcare benefits for eligible retired employees. This benefit is recorded as an expenditure as healthcare premiums are paid. Certain employees who elect to retire early under the District's early retirement program receive healthcare benefits up to five years. The District estimates its healthcare obligation for early retirees is \$323,299 as of June 30, 2005.

As of June 30, 2005, the District is able to report positive balances in two categories of net assets, both for the District as a whole and for its separate governmental activities. The same situation held true for the prior fiscal period.

The District's net assets decreased by \$520,596 during the current year. The following discussion and analysis on governmental activities focuses on this increase:

NORTH SANPETE SCHOOL DISTRICT'S Changes in Net Assets

	Governmental	
	Activities	
	2005	2004
Revenues:		
Program revenues:		
Charges for services	\$ 283,092	\$ 286,716
Operating grants and contributions	6,131,679	5,825,957
Capital grants and contributions	-	241,922
General Revenues:		
Property taxes	3,232,057	2,877,948
Federal and state aid not restricted to specific purposes	6,611,801	6,168,650
Earnings on investments	143,347	90,939
Miscellaneous	373,757	321,075
Total revenues	16,775,733	15,813,207
Expenses:		
Instruction	10,760,904	9,853,300
Support services:		

Students	263,608	281,504
Instructional staff	1,465,467	1,364,379
District administration	291,174	277,123
School administration	965,755	794,686
Business	195,459	200,736
Operation & maintenance of plant	1,235,769	1,242,541
Transportation	833,563	820,570
Central	301,222	284,668
School lunch services	821,213	797,929
Interest on long term liabilities	159,195	175,437
Total expenses	<u>17,296,329</u>	<u>16,092,873</u>
Changes in net assets	(520,596)	(279,666)
Net assets, beginning	<u>17,360,214</u>	<u>17,639,880</u>
Net assets, ending	<u>\$ 16,839,618</u>	<u>\$ 17,360,214</u>

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. The unreserved fund balance is divided between designated balances and undesignated balances. The District has designated portions of the unreserved fund balance to earmark resources for certain government-wide liabilities that are not recognized in the governmental funds. Undesignated balances in the general fund are required by state law to be appropriated in the following year's budget. Fund balances of capital projects and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the District's discretion.

The *general fund* is the chief operating fund of the District. At June 30, 2005, unreserved and undesignated fund balance was \$816,278 while the total fund balance was \$2,787,304. The unreserved and undesignated fund balance increased by \$47,077 and the total fund balance increased by \$160,193 during the fiscal year. Annual expenditures in the general fund were \$320,702 less than the final budgeted amounts.

The *capital projects fund* has a total fund balance of \$2,242,281, all of which is restricted for acquisition of capital assets and related expenditures. The fund balance decreased by \$447,196.

The *debt service fund* has a total fund balance of \$512,069, all of which is reserve for the payment of debt service on general obligation bonds. The fund balance increased by \$43,665 during the fiscal year.

The *non K-12 programs special revenue fund* has a total fund balance of \$36,848. This balance is within the total allowed by state guidelines and is restricted to non-kindergarten through twelfth grade programs.

The *school lunch special revenue fund* has a total fund balance of \$92,139. This balance is within the total allowed by state guidelines and is restricted to food service programs.

Capital Asset and Debt Administration

Capital Assets. The capital projects fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring equipment necessary for providing educational programs for all students within the District.

NORTH SANPETE SCHOOL DISTRICT'S Capital Assets (net of accumulated depreciation)

	2005	2004
Land	\$ 822,930	\$ 822,930
Buildings	14,011,997	14,397,204
Furniture and Equipment	779,534	867,226
	<u>\$ 15,614,461</u>	<u>\$ 16,087,360</u>

Debt Administration

The general obligation bonded debt of the District is limited by state law to 4% of the fair market value of the total taxable property in the District. The legal debt limit at June 30, 2005 was \$17,516,177 while the general obligation debt at that date was \$3,950,000, resulting in a legal debt margin of \$13,566,177.

NORTH SANPETE SCHOOL DISTRICT'S Outstanding Debt

	2005	2004
General obligation bonds	<u>\$ 3,950,000</u>	<u>\$ 4,305,000</u>

Requests for Information

This financial report is designed to provide a general overview of North Sanpete School District's finances and to demonstrate the District's accountability for the funds it receives. If you have any questions concerning this report or need additional financial information, please contact the Office of the Business Administrator, North Sanpete School District, 220 East 700 South, Mt. Pleasant, Utah 84647. Phone #435-462-2485.

NORTH SANPETE SCHOOL DISTRICT**Statement of Net Assets****June 30, 2005**

	Governmental Activities
Assets:	
Cash and investments	\$ 5,959,427
Receivables:	
Property taxes	2,817,338
Other governments	1,061,708
Prepaid Expenditures	229,777
Inventories	4,099
Bond issuance costs, net	18,000
Capital assets:	
Land, construction in progress, and water stock	822,930
Other capital assets, net of accumulated depreciation	14,791,530
Total assets	<u>25,704,809</u>
Liabilities:	
Accounts payable	172,071
Accrued interest	80,103
Accrued salaries	1,688,806
Deferred revenue:	
Property taxes	2,433,783
Other governments	4,099
Local sources	-
Advances from other funds	229
Noncurrent liabilities:	
Due within one year	651,624
Due in more than one year	3,834,476
Total liabilities	<u>8,865,191</u>
Net Assets:	
Invested in capital assets, net of related debt	11,653,060
Restricted for:	
School lunch	92,139
Non K-12 programs	36,848
Debt service	876,803
Capital projects	2,756,866
Unrestricted	1,423,902
Total net assets	<u>\$ 16,839,618</u>

The notes to the financial statements are an integral part of this statement.

NORTH SANPETE SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2005

Functions	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instructional services	\$ 10,760,904	\$ 11,435	\$ 3,355,117	\$ -	\$ (7,394,352)
Supporting services:					
Students	263,608	-	117,707	-	(145,901)
Instructional staff	1,465,467	-	1,378,062	-	(87,405)
District administration	291,174	-	-	-	(291,174)
School administration	965,755	-	17,285	-	(948,470)
Business	198,459	-	-	-	(198,459)
Operation and maintenance of facilities	1,235,769	-	30,161	-	(1,205,608)
Transportation	833,563	53,237	577,995	-	(202,331)
Central	301,222	-	47,498	-	(253,724)
School lunch services	821,213	208,331	607,854	-	(5,028)
Interest on long-term liabilities	159,195	-	-	-	(159,195)
Total school district	\$ 17,296,329	\$ 273,003	\$ 6,131,679	\$ -	(10,891,647)

General revenues:

Property taxes levied for:	
General purposes	2,009,543
Transportation	-
Recreation	-
Debt service	566,820
Capital outlay	655,694
Federal and state aid not restricted to specific purposes	6,611,801
Earnings on investments	143,347
Miscellaneous	383,846
Total general revenues	10,371,051
Change in net assets	(520,596)
Net assets - beginning	17,360,214
Net assets - ending	\$ 16,839,618

The notes to the financial statements are an integral part of this statement.

NORTH SANPETE SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2005

	Major Funds			Other	Total
	General	Debt Service	Capital Projects	Governmental Funds	Governmental Funds
Assets:					
Cash and investments	\$ 462,479	\$ -	\$ 5,492,460	\$ 4,488	\$ 5,959,427
Receivables:					
Property taxes	1,758,470	494,088	564,780	-	2,817,338
Other governments	1,029,612	-	-	32,096	1,061,708
Other receivables	40,415	-	-	-	40,415
Inventory	-	-	-	4,099	4,099
Due from other funds	2,760,446	356,490	-	150,458	3,267,394
Prepaid Expenditures	83,034	106,328	-	-	189,362
Total assets	\$ 6,134,456	\$ 956,906	\$ 6,057,240	\$ 191,141	\$ 13,339,743
Liabilities and fund balances:					
Liabilities:					
Accounts payable	\$ 127,596	\$ -	\$ 32,751	\$ 11,724	\$ 172,071
Accrued salaries	1,642,475	-	-	46,331	1,688,806
Due to other funds	-	-	3,267,623	-	3,267,623
Deferred revenue:					
Property taxes	1,577,081	444,837	514,585	-	2,536,503
Other governments	-	-	-	4,099	4,099
Local sources	-	-	-	-	-
Total liabilities	3,347,152	444,837	3,814,959	62,154	7,669,102
Fund Balances:					
Reserved for:					
Encumbrances	1,346,026	-	-	-	1,346,026
Debt service	-	512,069	-	-	512,069
Unreserved:					
Designated for:					
Undistributed reserve	625,000	-	-	-	625,000
Early retirement	-	-	-	-	-
Undesignated, reported in:					
General fund	816,278	-	-	-	816,278
Capital projects fund	-	-	2,242,281	-	2,242,281
Special revenue funds	-	-	-	128,987	128,987
Total fund balances	2,787,304	512,069	2,242,281	128,987	5,670,641
Total liabilities and fund balances	\$ 6,134,456	\$ 956,906	\$ 6,057,240	\$ 191,141	\$ 13,339,743

The notes to the financial statements are an integral part of this statement.

NORTH SANPETE SCHOOL DISTRICT
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2005

Total fund balances for governmental funds	\$ 5,670,641
---	---------------------

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 822,929	
Buildings and improvements, net of \$9,180,992 accumulated depreciation	14,011,997	
Furniture and equipment, net of \$1,052,157 accumulated depreciation	779,534	15,614,460

Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds.	102,720
--	---------

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is \$80,103 and accrued interest for obligations under capital leases is \$0.	(80,103)
---	----------

Bond issuance costs are reported as expenditures in the governmental funds. The cost is \$25,000 and accumulated amortization is \$7,000.	18,000
---	--------

Bonds payable	(3,950,000)	
Unamortized premiums	(11,400)	
Accrued vacation	(81,735)	
Early retirement payable	(442,965)	(4,486,100)

Total net assets of governmental activities	\$ 16,839,618
--	----------------------

The notes to the financial statements are an integral part of this statement.

NORTH SANPETE SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005

	Major Funds			Other	Total
	General	Debt Service	Capital Projects	Governmental Funds	Governmental Funds
Revenues:					
Property taxes	\$ 2,009,543	\$ 566,820	\$ 655,694	\$ -	\$ 3,232,057
Earnings on investments	100,992	-	42,247	108	143,347
School lunch sales	-	-	-	208,331	208,331
Other local sources	430,881	-	16,552	1,085	448,518
State aid	9,465,468	-	213,629	229,583	9,908,680
Federal aid	2,272,842	-	-	561,958	2,834,800
Total revenues	14,279,726	566,820	928,122	1,001,065	16,775,733
Expenditures:					
Current:					
Instructional services	8,855,770	-	-	145,590	9,001,360
Supporting services:					
Students	263,608	-	-	-	263,608
Instructional staff	1,465,467	-	-	-	1,465,467
District administration	268,435	-	-	-	268,435
School administration	873,620	-	-	-	873,620
Business	196,111	-	-	-	196,111
Operation and maintenance of facilities	1,229,667	-	-	-	1,229,667
Transportation	743,645	-	-	-	743,645
Central	301,222	-	-	-	301,222
School lunch services	-	-	-	819,705	819,705
Capital outlay	-	-	1,306,865	-	1,306,865
Debt service:					
Principal retirement	-	355,000	-	-	355,000
Interest and fiscal charges	-	168,155	-	-	168,155
Total expenditures	14,197,545	523,155	1,306,865	965,295	16,992,860
Excess (deficiency) of revenues over (under) expenditures	82,181	43,665	(378,743)	35,770	(217,127)
Other financing sources (uses):					
Sale of capital assets	-	-	9,559	-	9,559
Transfers in (out)	78,012	-	(78,012)	-	-
Total other financing sources (uses)	78,012	-	(68,453)	-	9,559
Net change in fund balances	160,193	43,665	(447,196)	35,770	(207,568)
Fund balances - beginning	2,627,111	468,404	2,689,477	93,217	5,878,209
Fund balances - ending	\$ 2,787,304	\$ 512,069	\$ 2,242,281	\$ 128,987	\$ 5,670,641

The notes to the financial statements are an integral part of this statement.

NORTH SANPETE SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Government Funds to the Statement of Activities
Year Ended June 30, 2005

Net change in fund balances-total governmental funds **\$ (207,568)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 for furniture and equipment and \$100,000 for buildings and improvements are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	\$ 146,822	
Loss on disposal of capital assets	9,559	
Proceeds from sales of capital assets	(9,559)	
Depreciation expense	<u>(619,722)</u>	(472,900)

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Repayment of bond principal	355,000	
Interest expense - general obligation bonds	7,693	
Amortization of bond issuance costs	(2,000)	
Amortization of bond premium	<u>1,267</u>	361,960

Property tax revenues received prior to the year for which they are being levied are reported as deferred revenue in the governmental funds. They are, however, recorded as revenues in the statement of activities. Deferred property tax revenues increased this year.

In the statement of activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). During this year, accrued vacation increased by \$9,405 and early retirement payable increased by \$192,683.

	<u>(202,088)</u>	
Change in net assets of governmental activities	\$ (520,596)	

The notes to the financial statements are an integral part of this statement.

NORTH SANPETE SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
General Fund
Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Revenues:				
Property taxes	\$ 1,861,080	\$ 1,993,535	\$ 2,009,543	\$ 16,008
Earnings on investments	105,000	105,000	100,992	(4,008)
Other local sources	286,265	393,294	430,881	37,587
State aid	9,261,376	9,446,710	9,465,468	18,758
Federal aid	2,046,573	2,512,037	2,272,842	(239,195)
Total revenues	13,560,294	14,450,576	14,279,726	(170,850)
Expenditures:				
Current:				
Instructional services	8,611,899	9,197,270	8,855,770	341,500
Supporting services:				
Students	244,638	236,772	263,608	(26,836)
Instructional staff	1,461,394	1,621,082	1,465,467	155,615
District administration	259,971	268,797	268,435	362
School administration	869,447	874,299	873,620	679
Business	197,276	200,681	196,111	4,570
Operation and maintenance of facilities	1,283,463	1,228,276	1,229,667	(1,391)
Transportation	754,315	755,083	743,645	11,438
Central	229,748	306,837	301,222	5,615
Total expenditures	13,912,151	14,689,097	14,197,545	491,552
Excess of revenues over expenditures	(351,857)	(238,521)	82,181	320,702
Other financing sources (uses):				
Transfer in (out)	72,251	78,002	78,012	10
Net change in fund balances	(279,606)	(160,519)	160,193	320,712
Fund balances - beginning	2,627,111	2,627,111	2,627,111	-
Fund balances - ending	\$ 2,347,505	\$ 2,466,592	\$ 2,787,304	\$ 320,712

The notes to the financial statements are an integral part of this statement.

NORTH SANPETE SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Agency Fund
June 30, 2005

	<u>Student Activities Fund</u>
Assets:	
Cash and investments	\$ 155,345
Advance from other fund	<u>229</u>
Total Cash and investments	<u>\$ 155,574</u>
Liabilities	
Due to student groups	\$ 154,926
Advance from other funds	<u>648</u>
Total liabilities	<u>\$ 155,574</u>

The notes to the financial statements are an integral part of this statement.

**NORTH SANPETE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the North Sanpete School District have been prepared in conformity with accounting principals generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principals. The more significant accounting policies of the District are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements –and Management’s Discussion and Analysis—for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- Beginning with 2003 the financial statements include:

A Management’s Discussion and Analysis (MD&A) providing an analysis of the District’s overall financial position and results of operations.

Financial statements prepared using full-accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The District has implemented the provisions of Statement No. 34 as well as other new standards related to note disclosure, nonexchange transactions, and certain liabilities and expenditures.

- **Reporting Entity** - The Board of Education, comprised of five elected individuals, is the primary governing authority for the District. As required by GAAP, these financial statements present the District. The District is not a component unit of any other primary government.

Government-wide and fund financial statements – The *government-wide financial statements* (i.e., the statement of net assets and the statement of changes in net assets) display information about the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District’s governmental activities. Direct expenses are those that are specifically associated with a function and, therefore, are clearly identifiable to a particular function. Depreciation expense for capital assets that can specifically be identified with a function are included in its direct expenses. Depreciation expense for “shared” capital assets (for example, a school building is used primarily for instructional, school administration, operation and maintenance of facilities, and school lunch services) are ratably included in the direct expenses of the appropriate functions. Indirect expense allocation that have been made in the funds have been reversed for the statement of activities. Interest on general long-term liabilities is considered an indirect expense and is reported in the statement of activities as a separate line.

Program revenues include 1) fees and charges paid by students and other recipients of goods or services, offered by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues that are not classified as program revenues, including property taxes, are presented as general revenues.

NORTH SANPETE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

The *fund financial statements* provide information about the District's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category (governmental, proprietary, and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental fund:

- The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.
- The *debt service fund* accounts for resources accumulated and payments made for principal and interest on general obligation school building bonds.
- The *capital projects fund* accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodel of facilities, and procurement of equipment necessary for providing educational programs for all students within the District.

Additionally, the District reports the following fund type:

- The *student activities agency fund (a fiduciary fund)* accounts for assets held on behalf of student groups and others.

Measurement focus, basis of accounting, and financial statement presentation – The *government-wide and fiduciary fund financial statements* are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District receives value without directly giving equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when the District receives cash. Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, early retirement and post-employment healthcare benefits, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

**NORTH SANPETE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Budgetary Data – Budgets are presented on the modified accrual basis of accounting for all governmental funds except the North Sanpete Foundation for Excellence special revenue fund. Budgets are not adopted on a District level for the student activities agency fund. All annual appropriations lapse at fiscal year-end with the exception of those indicated as a fund balance reserve. The following procedures are used in establishing the budgetary data reflected in the financial statements.

- During June of each year, the District superintendent submits to the Board a proposed operating budget for the next fiscal year commencing July 1st. This budget includes proposed expenditures and the means of financing them. Included also is a final budget for the current year ending June 30th.
- Copies of the proposed budget are made available for public inspection and review by the District's patrons.

If the District does not exceed the certified tax rate, a public hearing is held prior to June 22nd at which the budget is legally adopted by resolution of the Board after obtaining taxpayer input. If the District exceeds the certified tax rate, the budget is adopted in August when data is available to set the tax rates.

- Once adopted, the budget can be amended by subsequent Board action. The Board, upon recommendation of the superintendent can approve reductions in appropriations, but increases in appropriations by fund require a public hearing prior to amending the budget. In accordance with Utah state law, interim adjustments may be made by administrative transfer of money from one appropriation to another within any given fund.
- Certain interim adjustments in estimated revenue and expenditures during the year ended June 30, 2004, have been included in the final budget approved by the Board, as presented in the financial statements.
- Expenditures may not legally exceed budgeted appropriations at the fund level.

Encumbrance accounting is employed in the governmental funds and the internal service fund. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Negative variances in total revenues and the positive variances in total expenditures are largely a result of federal and state program revenues and related expenditures that do not have a direct impact on the undesignated fund balance. Budgets generally assume the expenditure of all available resources. Therefore, when the budget is prepared, it is assumed these funds will not have a carryover of revenue to a subsequent year. Program revenue received but not spent is restricted and deferred to the subsequent fiscal year. As a result, overall fund revenue variances will be negative, and overall fund expenditure variances will be positive.

Deposits and Investments – The cash balances of substantially all funds are pooled and invested by the District for the purpose of increasing earnings through investment activities and providing efficient management of temporary investments. The pool's investments are reported at fair value at year-end. Changes in the fair value of investments are recorded as investment earnings. Earnings on pooled funds are apportioned and paid or credited to the funds based on the average balance of each participating fund.

Cash and Cash Equivalents – The District considers cash and cash equivalents in proprietary funds to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Public Treasurers' Investment Pool (PTIF).

**NORTH SANPETE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as either “due to/from other funds” (i.e., current portion of interfund loans) or “advances from/to other funds” (i.e., the noncurrent portion of interfund loans).

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available resource.

Inventories – Inventories are valued at cost or, if donated, at fair value when received, using the moving average method. The consumption method of accounting is applied to the inventories of all funds.

Inventories of donated United States Department of Agriculture (USDA) commodities on hand at year-end are reported on the balance sheet at fair market value on the date received as inventory. Commodities used during the year are reported as revenue and expenditure on the operating statement.

Capital Assets – Capital assets, which include land, water stock, buildings and improvements, and furniture and equipment, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 for land, furniture and equipment and \$100,000 for buildings and improvements and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Buildings and improvements and furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20
Furniture	15
Portable Classrooms	15
Machinery and Tools	15
Buses	15
Laboratory Equipment	10
Musical Instruments	10
Licensed Vehicles	10
Computers	5

Compensated Absences – Under terms of association agreements, twelve-month or full-year employees earn vacation and sick leave in amounts varying with tenure and classification. In the event of termination or death, an employee is reimbursed for accumulated vacation days to a maximum of 20 days. No reimbursement or accrual is made for unused sick leave.

All vacation pay plus related payroll taxes are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds if they have matured, for example, as a result of employee resignations and retirements.

**NORTH SANPETE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Long-term Obligations – In the government-wide financial statements and internal service fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

Comparative Data and Reclassifications – Comparative data for the prior year has been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

2. DEPOSITS AND INVESTMENTS

Deposit and investments are carried at fair value. A reconciliation of cash and investments at June 30, 2005, as shown on the financial statements is as follows:

Carrying amount of deposits	\$ 363,075
Carrying amount of investments	<u>5,596,352</u>
Total cash and investments	<u>\$ 5,959,427</u>
Governmental funds cash and investments	\$ 5,804,082
Fiduciary fund cash and investments	<u>155,345</u>
Total cash and investments	<u>\$ 5,959,427</u>

The District complies with the State Money Management Act (Utah Code Section 51, Chapter 7) (Act) and related Rules of the Money Management Council (Council) in handling its depository and investing transactions. District funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the District to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, US Treasury obligations, US agency issues, high-grade commercial paper, banker's acceptances, repurchase agreements, corporate bonds, money market mutual funds, and obligations of governmental entities within the State of Utah.

The PTIF is authorized and makes investments in accordance with the Act. The Council provides regulatory oversight for the PTIF. Participant accounts with the PTIF are not insured or otherwise guaranteed by the State of Utah. Participants in the PTIF share proportionally in the income, costs, gains and losses from investment activities. The degree of risk of the PTIF depends upon the underlying portfolio.

The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in

**NORTH SANPETE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The District considers the actions of the Council to be necessary and sufficient for adequate protection of its uninsured bank deposits.

Rules of the Council allow Millard School District Foundation to invest private grants, contributions, and endowments in any deposit or investment authorized by the Act and certain investment funds, equity securities, fixed-income securities, and investment strategies with institutions that meet certain restrictions.

All of the District's investments are with the PTIF. The Foundation has deposits separate from the District and invests some private funds through a broker.

Deposits – At June 30, 2005, the District had the following deposits with financial institutions:

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Amount Insured</u>
North Sanpete School District	<u>\$363,075</u>	<u>\$1,051,569</u>	<u>\$100,002</u>

- Custodial credit risk – Custodial credit risk for deposits is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. At June 30, 2005, the uninsured amount of the District's bank deposits was uncollateralized.

Investments – At June 30, 2005, the District had the following investments summarized by investment type and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>5-Jan</u>	<u>10-May</u>	<u>More Than 10</u>
North Sanpete School District: Utah Public Treasurer's Investment Fund (PTIF)	<u>\$ 5,596,352</u>	<u>\$ 5,596,352</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

- Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to interest rate risk by complying with the Act, which requires that the remaining term to maturity of investments to not exceed the period of availability of the funds invested. Except for endowments, the Act further limits the remaining term to maturity on all investments in commercial paper and bankers' acceptances to 270 days or less and fixed-income securities to 365 days or less. In addition, variable-rate securities may not have a remaining term to final maturity exceeding two years. The Foundation can invest private funds in fixed-income securities with a dollar-weighted average maturity not to exceed ten years.
- Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the Act and related rules. The Act and related rules limit investments in commercial paper to a first tier rating and investments in fixed-income and variable-rate securities to a rating of A or higher as rated by Moody's Investors Service, Inc. or by Standard and Poor's Corporation. The District has no investment policy that would further limit its investment choices.

**NORTH SANPETE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

At June 30, 2005, the District and the Foundation have the following investments subject to credit risk:

Investment Type	Fair Value	Credit Quality Ratings		
		AAA to A	Less than A	Unrated
North Sanpete School District				
Utah Public Treasurer's				
Investment Fund (PTIF)	\$ 5,596,352	\$ -	\$ -	\$ 5,596,352

- **Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy for managing this risk is to comply with the Act and related rules. The Act limits investments in commercial paper and/or corporate obligations to 5% of the District's total portfolio with a single issuer. The District places no other limits on the amount it may invest in any one issuer. The Foundation can invest private funds in certain equity and fixed-income securities provided no more than 5% of all funds are invested in any one issuer and no more than 25% of all funds are invested in a particular industry. Also, for the Foundation's investments in private funds, no more than 75% may be invested in equity securities and no more than 5% in collateralized mortgage obligations.
- **Custodial Credit Risk** – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The District's policy for managing this risk is to comply with the Act and related rules. The District places no other limit on the amount of investments to be held by counterparties. The Act requires the Foundation's public treasurer to have custody of all securities purchased or held or deposit these securities with a bank or trust company to be held in safekeeping by the custodian.

3. PROPERTY TAXES

The property tax revenue of the District is collected and distributed by the Utah County treasurer as an agent of the District. Utah statutes establish the process by which taxes are levied and collected. The county assessor is required to assess real property as of January 1 and complete the tax rolls by May 15. By July 21, the county auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The county auditor makes approved changes in assessed value by November 1 and on this same date the county auditor is to deliver the completed assessment rolls to the county treasurer. Tax notices are mailed with a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at an annual rate equal to the federal discount rate plus 6%. The interest rate period is from January 1 until the date paid.

Beginning January 1, 1992, an annual uniform fee based on the value of motor vehicles was levied in lieu of an ad valorem tax on motor vehicles. This uniform fee was 1.5% of the fair market value statewide value of the property, as established by the State Tax Commission. Effective January 1, 1999, legislation required motor vehicles be subject to an "age-based" fee that is due each time a vehicle is registered. The age-based fee is for

**NORTH SANPETE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

passenger type vehicles and ranges from \$10 to \$150 based on the age of the vehicle. The revenues collected in each county from motor vehicle fees is distributed by the county to each taxing entity in which the property is located in the same proportion in which revenue collected from ad valorem real property tax is distributed. The District recognizes motor vehicle fees as property tax revenue when the County collects it.

As of June 30, 2005, property taxes receivable by the District includes uncollected taxes assessed as of January 1, 2004 or earlier. It is expected that all assessed taxes (including delinquencies plus accrued interest and penalties) will be collected within a five-year period, after which time the county treasurer may force sale of property to collect the delinquent portion.

4. CAPITAL ASSETS

Capital Asset activity for the year ended June 30, 2005 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 822,930	\$ -	\$ -	\$ 822,930
Total capital assets, not being depreciated	822,930	-	-	822,930
Capital assets, being depreciated				
Buildings and improvements	23,578,196	86,215		23,664,411
Furniture and equipment	1,919,385	60,608	-	1,979,993
Total capital assets, being depreciated	25,497,581	146,823	-	25,644,404
Accumulated depreciation for:				
Buildings and improvements	(9,180,992)	(471,422)	-	(9,652,414)
Furniture and equipment	(1,052,158)	(148,300)	-	(1,200,459)
Total accumulated depreciation	(10,233,150)	(619,722)	-	(10,852,873)
Total capital assets, being depreciated, net	15,264,430	(472,899)	-	14,791,531
Governmental activities capital assets, net	\$16,087,360	\$ (472,899)	\$ -	\$15,614,461

For the year ended June 30, 2005, depreciation expense was charged to functions of the District as follows:

Governmental activities:	
Instructional services	\$ 491,450
Supporting services:	
District administration	22,739
School administration	5,657
Business	2,348
Operation and maintenance of facilities	6,102
Transportation	89,918
School lunch services	1,508
Total depreciation expense - governmental activities	\$ 619,722

**NORTH SANPETE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

5. RETIREMENT PLANS

Defined Benefit Plans - The District contributes to the State and School Contributory Retirement System and State and School Noncontributory Retirement System (Systems), which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (URS). URS provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953, as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Plan members in the State and School Contributory Retirement System are required to contribute 5% of their annual covered salary (all or part may be paid by the employer for the employee) and North Sanpete School District is required to contribute 8.89% of their member's annual covered salary. In the State and School Noncontributory Retirement System the North Sanpete School District is required to contribute 13.38% of the member's annual covered salary. The contribution rates are the actuarial determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The District's contributions to the State and School Contributory Retirement System for the years ending June 30, 2005, 2004 and 2003 were \$8,446, \$7,174 and \$8,306 respectively. The Noncontributory Retirement System contributions for June 30, 2005, 2004 and 2003 were \$1,017,438, \$883,236 and \$734,838 respectively. The contributions were equal to the required contributions for each year.

Defined Contribution Plan - The District participates in a defined contribution plan under Internal Revenue Code Section 401(k) to supplement retirement benefits accrued by participants in the Systems. Employees covered by the State and School Noncontributory Retirement System have a contribution of 1.5% of covered salaries automatically made by the District. Employees participating in the Systems can make additional contributions to the 401(k) plan up to specified limits. Contributions and earnings may be withdrawn by the employee upon termination or may be used as supplemental income upon retirement. The employer 401(k) contributions for the years ended June 30, 2005, 2004, and 2003 were \$114,199, \$114,480 and \$107,318, respectively; the employee contributions for the years ending June 30, 2005, 2004, and 2003 were \$241,446, \$223,052 and \$209,527, respectively. The 401(k) plan funds are fully vested to the participants at the time of deposit. Plan assets are administered and held by URS.

6. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has joined with other public entities in a common risk management and insurance program operated by the State of Utah Division of Risk Management. The District pays premiums to this risk pool, the Utah State Risk Management Fund, for its general insurance coverage. The pool is self sustaining through member premiums and reinsures through commercial companies for

**NORTH SANPETE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

claims in excess of specified amounts for certain types of risks. The District is subject to a minimal deductible for claims of the risk pool. The District has purchased commercial insurance for other risks of loss including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past five fiscal years.

7. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2005 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:	\$ 4,305,000	\$ -	\$ (340,000)	\$ 4,305,000	\$ 355,000
General obligation bonds					
Deferred amounts for issuance					
Premium	12,667	-	(1,267)	12,667	1,267
Total bonds payable, net	4,317,667	-	(341,267)	4,317,667	356,267
Accrued vacation	72,330	65,411	(62,274)	72,330	65,097
Early retirement payable	250,282	42,727	(96,168)	250,282	125,515
Total governmental activity					
Long-term liabilities	<u>\$ 4,640,279</u>	<u>\$ 108,138</u>	<u>\$ (499,709)</u>	<u>\$ 4,640,279</u>	<u>\$ 546,879</u>

Payments on the general obligation bonds are made by the debt service fund from property taxes and earnings on investments. The obligations under capital leases are paid by the capital projects fund. Vacation and early retirement benefits will be paid by the fund in which the employee worked.

General Obligation Bonds - The District issues general obligation bonds to finance the purchase of major capital items and the acquisition or construction of major capital facilities. Outstanding general obligation bonds at June 30, 2005 are as follows:

	<u>Rates</u>	<u>Dates</u>	<u>Balance</u>
Series 1993 Dated November 15, 1993 - Original Amount \$5,500,000 - Partially Refunded in 2001	4.55% to 5.35%	2005	\$ 660,000
Series 2001 Dated November 1, 2001 - Original Amount \$3,710,000	3.00% to 4.20%	2013	<u>3,645,000</u>
Total			<u>\$ 4,305,000</u>

The debt service requirements to maturity for the general obligation bonds are shown below:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	375,000	150,243	525,243
2007	390,000	133,503	523,503
2008	405,000	117,603	522,603
2009	420,000	101,943	521,943
2010	435,000	86,226	521,226
2011-2015	<u>1,925,000</u>	<u>252,151</u>	<u>2,090,925</u>
Total	<u>\$3,950,000</u>	<u>\$ 669,217</u>	<u>\$4,705,443</u>

**NORTH SANPETE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

The general obligation bonded debt of the District is limited by state law to 4% of the fair market value of the total taxable property in the District. The legal debt limit at June 30, 2004 is \$17,516,177. General obligation debt at June 30, 2004 is \$3,950,000, resulting in a legal debt margin of \$13,566,177.

Advance Refunding – November 1, 2001 - The District issued \$3,710,000 general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,430,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from financial statements.

8. DESIGNATED FOR UNDISTRIBUTED RESERVE

Utah State law allows for the establishment of an undistributed reserve. The Board of Education must authorize expenditures from the undistributed reserve. This reserve is for contingencies. According to State law, the District may not use undistributed reserves in the negotiation or settlement of contract salaries for District employees. The undistributed reserve may not exceed 5% of the current fiscal year's total general fund budgeted revenues. Use of the reserve requires a written resolution adopted by a majority vote of the Board filed with Utah State Board of Education and State Auditor.

9. GRANTS

The District receives significant financial assistance from Federal and State governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable fund. Based on prior experience, District administration believes such disallowance, if any, would be immaterial.

10. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Utah law requires that actual expenditures shall not exceed budgeted appropriations for any fund. Actual expenditures in the Capital Projects Fund exceeded budgeted expenditures by \$119,000.

NORTH SANPETE SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	<u>Special Revenue</u>		<u>Total</u>
	<u>School</u>	<u>Non K-12</u>	<u>Nonmajor</u>
	<u>Lunch</u>	<u>Programs</u>	<u>Governmental</u>
			<u>Funds</u>
Assets:			
Cash and investments	\$ 4,488	\$ -	\$ 4,488
Receivables:			
Other governments	32,096		32,096
Inventory	4,099		4,099
Due from other funds	100,879	49,579	150,458
Total assets	<u>\$ 141,562</u>	<u>\$ 49,579</u>	<u>\$ 191,141</u>
Liabilities:			
Accounts payable	\$ 11,684	\$ 40	\$ 11,724
Accrued salaries	33,640	12,691	46,331
Deferred revenue:			
Other governments	4,099		4,099
Total liabilities	<u>49,423</u>	<u>12,731</u>	<u>62,154</u>
Fund balances:			
Unreserved:			
Undesignated	92,139	36,848	128,987
Total fund balances	<u>92,139</u>	<u>36,848</u>	<u>128,987</u>
Total liabilities and fund balances	<u>\$ 141,562</u>	<u>\$ 49,579</u>	<u>\$ 191,141</u>

NORTH SANPETE SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2005

	<u>Special Revenue</u>		<u>Total</u>
	<u>School</u>	<u>Non K-12</u>	<u>Nonmajor</u>
	<u>Lunch</u>	<u>Programs</u>	<u>Governmental</u>
			<u>Funds</u>
Revenues:			
Student fees	\$ -	\$ 1,085	\$ 1,085
Lunch sales	208,331	-	208,331
Earnings on investments	108	-	108
State aid	107,024	122,559	229,583
Federal aid	540,281	21,677	561,958
Total revenues	855,744	145,321	1,001,065
Expenditures:			
Current:			
Instructional services	-	145,590	145,590
School lunch services	819,705	-	819,705
Total expenditures	819,705	145,590	965,295
Excess of revenues over expenditures	36,039	(269)	35,770
Other financing sources:			
Net change in fund balances	36,039	(269)	35,770
Fund balances - beginning	56,100	37,117	93,217
Fund balances - ending	<u>\$ 92,139</u>	<u>\$ 36,848</u>	<u>\$ 128,987</u>

NORTH SANPETE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
School Lunch
Nonmajor Special Revenue Fund
Year Ended June 30, 2005
With Comparative Totals for 2004

	2005			2004
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)	Actual Amounts
Revenues:				
Local sources:				
Lunch sales - children	\$ 183,909	\$ 179,041	\$ (4,868)	\$ 185,572
Lunch Sales - adult	21,740	23,743	2,003	22,266
Earnings on investments	75	108	33	66
Other local sales	1,600	5,547	3,947	2,544
Total local sources	207,324	208,439	1,115	210,448
State sources:				
State lunch program	86,139	107,024	20,885	109,486
Total state sources	86,139	107,024	20,885	109,486
Federal sources:				
Federal lunch program	59,640	59,630	(10)	58,365
Free and reduced assistance	329,433	329,928	495	296,121
Breakfast program	60,831	62,062	1,231	51,478
Other	172,893	88,661	(84,232)	99,512
Total federal sources	622,797	540,281	(82,516)	505,476
Total revenues	916,260	855,744	(60,516)	825,410
Expenditures:				
Current:				
Salaries	291,303	279,324	11,979	289,460
Employee benefits	182,613	180,527	2,086	181,579
Purchased services	17,092	16,331	761	19,881
Supplies	20,000	12,121	7,879	18,311
Food	382,068	327,366	54,702	284,131
Other	23,184	4,036	19,148	3,059
Total expenditures	916,260	819,705	96,555	796,421
Net change in fund balances	-	36,039	36,039	28,989
Fund balances - beginning	56,100	56,100	-	27,111
Fund balances - ending	<u>\$ 56,100</u>	<u>\$ 92,139</u>	<u>\$ 36,039</u>	<u>\$ 56,100</u>

NORTH SANPETE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Non K-12 Programs
Nonmajor Special Revenue Fund
Year Ended June 30, 2005
With Comparative Totals for 2004

	2005			2004
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)	Actual Amounts
Revenues:				
Local sources:				
Adult education fees	\$ 2,000	\$ 1,085	\$ (915)	3,000
Total local sources	2,000	1,085	(915)	3,000
State sources:				
Adult high school completion	34,886	34,886	-	36,621
Preschool	87,673	87,673	-	80,066
Total state sources	122,559	122,559	-	116,687
Federal sources:				
Special education preschool grant	21,677	21,677	-	21,765
Total federal sources	21,677	21,677	-	21,765
Total revenues	146,236	145,321	(915)	141,452
Expenditures:				
Current:				
Salaries	102,482	97,629	4,853	107,678
Employee benefits	11,763	11,783	(20)	12,328
Purchased services	27,569	24,807	2,762	9,413
Supplies	35,157	5,226	29,931	12,494
Other	6,382	6,145	237	5,047
Total expenditures	183,353	145,590	37,763	146,960
Excess (deficiency) of revenues over (under) expenditures	(37,117)	(269)	36,848	(5,508)
Fund balances - beginning	37,117	37,117	-	42,625
Fund balances - ending	\$ -	\$ 36,848	\$ 36,848	\$ 37,117

NORTH SANPETE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Major Debt Service Fund
Year Ended June 30, 2005
With Comparative Totals for 2004

	2005			2004
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)	Actual Amounts
Revenues:				
Property tax	\$ 557,830	\$ 566,820	\$ 8,990	\$ 568,852
Total revenues	557,830	566,820	8,990	568,852
Expenditures:				
Debt service:				
Bond principal	355,000	355,000	-	340,000
Bond interest	167,388	167,388	-	183,283
Paying agent fees	2,514	767	1,747	1,114
Total expenditures	524,902	523,155	1,747	524,397
Excess (deficiency) of revenues over (under) expenditures	32,928	43,665	10,737	44,455
Other financing sources (uses):				
Proceeds of refunding bonds	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	32,928	43,665	10,737	44,455
Fund balance - beginning	468,404	468,404	-	423,949
Fund balance - ending	\$ 501,332	\$ 512,069	\$ 10,737	\$ 468,404

NORTH SANPETE SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Major Capital Projects Fund
Year Ended June 30, 2005
With Comparative Totals for 2004

	2005			2004
	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)	Actual Amounts
Revenues:				
Local sources:				
Property taxes	\$ 646,522	\$ 655,694	\$ 9,172	\$ 565,823
Earnings on investments	17,500	42,247	24,747	4,422
Other local revenues	15,238	16,552	1,314	6,845
Total local sources	679,260	714,493	35,233	577,090
State sources:				
Capital outlay foundation	213,629	213,629	-	239,922
Total state sources	213,629	213,629	-	239,922
Total revenues	892,889	928,122	35,233	817,012
Expenditures:				
Land and buildings:				
Land improvements	102,212	93,652	8,560	334,038
Building improvements	698,521	813,309	(114,788)	182,517
Total land and buildings	800,733	906,961	(106,228)	516,555
Equipment:				
Maintenance and custodial			-	
Equipment	181,039	229,396	(48,357)	174,059
Buses	164,860	164,860	-	89,196
Other vehicles	6,000	5,648	352	19,736
Total equipment	351,899	399,904	(48,005)	282,991
Total expenditures	1,152,632	1,306,865	(154,233)	799,546
Excess (deficiency) of revenues over (under) expenditures	(259,743)	(378,743)	(119,000)	17,466
Other Financing Sources (Uses):				
Sale of capital assets	9,500	9,559	59	-
Transfers in (out)	(78,002)	(78,012)	(10)	-
Total other financing sources (uses)	(68,502)	(68,453)	49	-
Net change in fund balances	(328,245)	(447,196)	(118,951)	17,466
Fund balance - beginning	2,689,477	2,689,477	-	2,672,011
Fund balance - ending	\$ 2,361,232	\$ 2,242,281	\$ (118,951)	\$ 2,689,477

NORTH SANPETE SCHOOL DISTRICT
Statement of Changes in Assets and Liabilities
Student Activities Agency Fund
Year Ended June 30, 2005

	<u>Net Assets at July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Net Assets at June 30, 2005</u>
Assets:				
Cash and investments	\$ 181,755	\$ 796,892	\$ 823,302	\$ 155,345
Advance from other fund	229		-	229
	<u>181,984</u>	<u>796,892</u>	<u>823,302</u>	<u>155,574</u>
Liabilities:				
Due to other funds	\$ -	\$ -	\$ -	\$ -
Due to student organizations:				
Elementary Schools:				
Spring City	3,632	21,824	21,312	4,144
Mt. Pleasant	6,532	46,715	43,099	10,148
Fountain Green	4,984	25,843	23,867	6,960
Fairview	19,314	39,850	42,544	16,620
Moroni	13,239	24,429	27,899	9,769
Total elementary schools	<u>47,701</u>	<u>158,661</u>	<u>158,721</u>	<u>47,641</u>
Middle Schools:				
North Sanpete	<u>35,913</u>	<u>88,370</u>	<u>87,879</u>	<u>36,404</u>
Total middle schools	<u>35,913</u>	<u>88,370</u>	<u>87,879</u>	<u>36,404</u>
High Schools and Special Purpose Programs:				
North Sanpete	97,680	549,861	576,702	70,839
Snow College Scholarship Fund	42			42
Utah Public Education Foundation	648			648
Total high schools and special purpose programs	<u>98,370</u>	<u>549,861</u>	<u>576,702</u>	<u>71,529</u>
Total due to student organizations	<u>181,984</u>	<u>796,892</u>	<u>823,302</u>	<u>155,574</u>
Total liabilities	<u>\$ 181,984</u>	<u>\$ 796,892</u>	<u>\$ 823,302</u>	<u>\$ 155,574</u>

NORTH SANPETE SCHOOL DISTRICT

**SINGLE AUDIT AND STATE OF UTAH
LEGAL COMPLIANCE REPORTS**

YEAR ENDED JUNE 30, 2005

TABLE OF CONTENTS

	Page
Schedule of Expenditures of Federal Awards	1
Notes to Schedule of Expenditures of Federal Awards	2
Independent Auditor's Report on Internal Control and on Compliance and Other Matters Over Financial Reporting Based on Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3-4
Independent Auditor's Report on Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 <i>Organizations</i>	5-6
Schedule of Findings and Questions Costs	7
Independent Auditor's Report on Legal Compliance in Accordance With the <i>Utah State Legal Compliance Audit Guide</i>	8-9

NORTH SANPETE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Thru Grantor's Number</u>	<u>Disbursements or Expenditures</u>
<u>U.S. Department of Education</u>			
Direct			
GEAR-UP	84.334	P334A020283-03	\$ 644,873
Passed Through State Dept. of Education			
English Language Acquisition (Title III, A)	84.365	03-73-05	468
English Language Acquisition (Title III, A)	84.365	04-73-05	2,235
English Language Acquisition (Title III, A)	84.365	05-73-05	11,302
Innovative Education Program Strategies (Title VI, A)	84.318		11,864
Improving Teacher Quality (Title II, A)	84.367	05-74-03	70,439
Title I Grants to Local Educational Agencies (Title I, A)	84.010	05-08-05	291,172
Title I Grants to Local Educational Agencies (Title I, A)	84.010	04-08-05	46,040
Migrant Education_State Grant Program	84.011	03-15-05	31,312
Migrant Education_State Grant Program	84.011	04-15-05	30,532
Special Education_Grants to States	84.027	05-19-05	5,869
Special Education_Preschool Grants	84.173	04-52-05	21,677
Special Education_Grants to States	84.027	05-19-05	467,721
Safe and Drug Free Schools & Communities	84.186	05-09-12	11,672
Vocational Education_Basic Grants to States	84.048	05-21-12	110,491
Adult Education_State Grant Program	84.002	04-33-08	4,969
Reading First	84.357	03-13783	505,457
Impact Aid	84.041	N/A	1,437
Total U.S. Dept. of Education			<u>2,269,530</u>
<u>U.S. Department of Agriculture</u>			
Passed Through State Office of Education			
School Breakfast Program	10.553	05-44-25	43,610
School Breakfast Program	10.553	04-44-25	8,452
National School Lunch Program	10.555	05-42-25	49,728
National School Lunch Program	10.555	04-42-25	9,902
National School Lunch Program	10.555	05-43-25	268,851
National School Lunch Program	10.555	04-43-25	61,077
Child and Adult Food Care Program	10.558	05-47-25	792
Child and Adult Food Care Program	10.558	04-47-25	80
Summer Food Service for Children	10.559	04-48-25	34,275
Federal Food Commodities - Non Cash	10.550	N/A	53,514
Passed Through Sanpete County Forest Reserve			
Forest Reserve	10.665	N/A	12,980
Total U.S. Department of Agriculture			<u>543,261</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,812,791</u></u>

NORTH SANPETE SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of Federal awards is a summary of activities related to the District expenditure of Federal awards. The schedule has been prepared on the same basis as the general purpose financial statements. Most of the awards are reimbursement based. Therefore, as expenditures of Federal funds are made, revenue is recognized.

NOTE B - FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Ending inventory is reflected in the financial statements as deferred revenue. Ending inventory at June 30, 2005 is \$4,099.

NOTE C - ACCOUNTS RECEIVABLE

The general purpose financial statements include accounts receivable from Federal programs. These receivables are accrued according to the accrual basis of accounting. The receivables reflect Federal awards that have been expended by yearend and not yet reimbursed.

GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

RANDEL A. HEATON, C.P.A.
LYNN A. GILBERT, C.P.A.
JAMES A. GILBERT, C.P.A.
BEN H. PROBST, C.P.A.

SIDNEY S. GILBERT, C.P.A.
JAMES E. STEWART, C.P.A.

190 WEST 800 NORTH
SUITE 100
PROVO, UTAH 84601
TELEPHONE (801) 377-5300
FAX (801) 373-5622

Independent Auditor's Report On Internal Control and On Compliance And Other Matters Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

Board of Education
North Sanpete School District
Mt. Pleasant, UT

November 8, 2005

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Sanpete School District as of and for the year ended June 30, 2005, which collectively comprise the North Sanpete School District's basic financial statements and have issued our report thereon dated November 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Sanpete School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted other matters involving the internal control over financial reporting that we reported to management of North Sanpete School District in a separate letter dated November 8, 2005.

Compliance

As part of obtaining reasonable assurance about whether North Sanpete School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and,

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we reported to management of North Sanpete School District in a separate letter dated November 8, 2005.

This report is intended solely for the information of management, Utah State Auditor, State Office of Education, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Gilbert & Stewart", written in dark ink.

GILBERT & STEWART
Certified Public Accountants

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

RANDEL A. HEATON, C.P.A.
LYNN A. GILBERT, C.P.A.
JAMES A. GILBERT, C.P.A.
BEN H. PROBST, C.P.A.

SIDNEY S. GILBERT, C.P.A.
JAMES E. STEWART, C.P.A.

190 WEST 800 NORTH
SUITE 100
PROVO, UTAH 84601
TELEPHONE (801) 377-5300
FAX (801) 373-5622

**Independent Auditor's Report On Compliance With Requirements
Applicable To Each Major Program And Internal Control Over
Compliance In Accordance With OMB Circular A-133**

Board of Education
North Sanpete School District
Mt. Pleasant, UT

November 8, 2005

Compliance

We have audited the compliance of North Sanpete School District with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that are applicable to each of its major Federal programs for the year ended June 30, 2005. North Sanpete School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of North Sanpete School District's management. Our responsibility is to express an opinion on North Sanpete School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about North Sanpete School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on North Sanpete School District's compliance with those requirements.

In our opinion, North Sanpete School District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

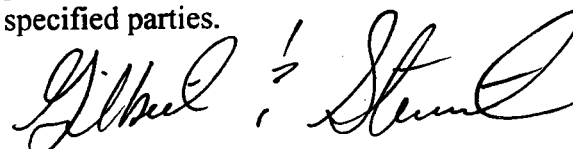
The management of North Sanpete School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered North Sanpete School District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Sanpete School District as of and for the year ended June 30, 2005, which collectively comprise the North Sanpete School District's basic financial statements and have issued our report thereon dated November 8, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information of management, State Office of Education, Utah State Auditor, Federal and State award agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



GILBERT & STEWART

Certified Public Accountants

NORTH SANPETE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of North Sanpete School District.
2. No reportable conditions were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of North Sanpete School District were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of internal controls over the major Federal award programs.
5. The auditor's report on compliance for the major Federal award programs for North Sanpete School District expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in Part C. of this schedule.
7. The programs tested as major programs included: Title I, Part A, CFDA 84.010; Special Education Cluster including CFDA 84.027 and 84.173; GEAR-UP, CFDA 84.334; and Reading First CFDA 84.357.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. North Sanpete School District was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR AWARD PROGRAMS

None

D. FINDINGS AND QUESTIONED COSTS - MAJOR AWARD PROGRAMS - PRIOR YEAR

None

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

RANDEL A. HEATON, C.P.A.
LYNN A. GILBERT, C.P.A.
JAMES A. GILBERT, C.P.A.
BEN H. PROBST, C.P.A.

SIDNEY S. GILBERT, C.P.A.
JAMES E. STEWART, C.P.A.

190 WEST 800 NORTH
SUITE 100
PROVO, UTAH 84601
TELEPHONE (801) 377-5300
FAX (801) 373-5622

**INDEPENDENT AUDITOR'S REPORT ON
LEGAL COMPLIANCE IN ACCORDANCE WITH
THE UTAH STATE LEGAL COMPLIANCE AUDIT GUIDE**

Board of Education
North Sanpete School District
Mt. Pleasant, Utah

November 8, 2005

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Sanpete School District for the year ended June 30, 2005, and have issued our report thereon dated November 8, 2005. As part of our audit, we have audited North Sanpete School District's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The District received the following major state assistance programs from the State of Utah:

Minimum School Programs (SOE)
Student Services – Substance Abuse (State Office of Education)

The District also received nonmajor grants which are not required to be audited for specific compliance requirements. (However, these programs were subject to test work as part of the audit of the North Sanpete School District's financial statements.)

Our audit also included test work on the District's compliance with the following general compliance requirements identified in the State of Utah legal Compliance Audit Guide:

Public Debt
Budgetary Compliance
Cash Management
Property Tax
Purchasing Requirements
Other Compliance Requirements

The management of the North Sanpete School District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the

United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed instances of noncompliance with requirements referred to above, which are described in the accompanying letter to management. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, North Sanpete School District complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major state assistance programs for the year ended June 30, 2005.

This report is intended solely for the information of management, the Board of Education, State Office of Education, and Utah State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signatures of Gilbert and Stewart, with a small '1/2' written between them.

GILBERT & STEWART
Certified Public Accountants

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

RANDEL A. HEATON, C.P.A.
LYNN A. GILBERT, C.P.A.
JAMES A. GILBERT, C.P.A.
BEN H. PROBST, C.P.A.

SIDNEY S. GILBERT, C.P.A.
JAMES E. STEWART, C.P.A.

190 WEST 800 NORTH
SUITE 100
PROVO, UTAH 84601
TELEPHONE (801) 377-6300
FAX (801) 373-6622

November 8, 2005

Board of Education
North Sanpete School District
Mt. Pleasant, UT

We have audited the financial statements of North Sanpete School District for the year ended June 30, 2005 and have issued our report thereon dated November 8, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated September 19, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of North Sanpete School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the North Sanpete School District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

This letter is issued as required by Statement on Auditing Standards No. 61, "Communications with audit committees", which requires auditors to determine that certain matters related to the conduct of an audit are communicated to those who have responsibility for the oversight of the financial reporting process.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the

appropriateness of accounting policies and their application. The significant accounting policies used by North Sanpete School District are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by North Sanpete School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the North Sanpete School District's financial reporting process. In our judgment, none of the adjustments we proposed whether recorded or unrecorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the District's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors.

However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

The following matters are items noticed during our audit which related to Utah State compliance issues:

Utah State Legal Compliance Findings - Current Year:

05-1 Budgetary Compliance

Finding: We noted during the course of our audit that the Capital Projects Fund exceeded its adopted budget by \$154,233,

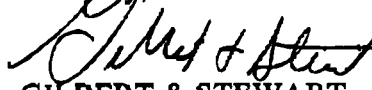
Recommendation: We recommend the District increase future budgeted expenditures in this area.

District's Response: We concur with the auditor's recommendation.

We wish to express our appreciation to the city personnel for the friendly and enthusiastic help extended to us during the course of our examination.

This information is intended solely for the use of the City Council and Management and should not be used for any other purpose. If you have any questions concerning the above items, we will be happy to discuss them with you.

Sincerely,



GILBERT & STEWART

Certified Public Accountants

Finding: We noted during the course of our